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DEPARTMENT OF STATE
ACTION MEMORANDUM

S/S

May 24, 1974

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To: The Secretary
From: EA - Arthur Hummel W
S/P - Winston Lord W
Richard Solomon, NSC W

Imperatives for Planning and Action on the China Issue

Our China policy is drifting without a clear sense of how we will move toward normalization, or indeed what the shape of a future normalized relationship with the PRC will look like -- particularly as it affects Taiwan. We are in danger of losing a sense of momentum in our dealings with Peking and need a normalization strategy which will give coherence to a range of operational issues which in sum make up our China policy. PRC leaders are giving vent to signs of unease about our apparent drift, and China's internal political instability appears to be compounding the negative reaction to such events as Leonard Unger's appointment as our new ambassador to Taipei.

Taiwan, on the other hand, has been buoyed by recent events, feeling that it has a new lease on life. If we are to sustain the momentum toward normalized U.S.-PRC relations, we must soon face a range of actions which will begin to impinge on Taiwan's interests in a direct and evermore costly way. The relatively easy steps of the first phase of the opening to Peking are over, and the harder choices of how to modify our relations with the ROC are before us. The American domestic political situation may make it difficult at the present time to initiate certain steps toward normalization. However, we believe we should consider certain unilateral actions on our part over the coming months which would signal primarily to Peking, but also to Taipei, the continuing trend of our China policy.

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2

This memorandum summarizes the problems we now face in maintaining a coherent China policy, suggests a number of unilateral steps which might be taken to maintain the momentum of the past three years, and requests your approval for a comprehensive study -- which we would undertake -- of ways in which we might "confirm the principle of one China" and related actions that could be taken over the coming two years which would move us in that direction.

The Problems We Now Face

The PRC's continuing domestic political conflict appears to be generating some pressure for action on the Taiwan front which is affecting the leaders with whom we have been dealing. (A memorandum summarizing indicators of that pressure is at Tab A.) We know so little about the actual power configuration in Peking, and the way issues are caught up in the current anti-Confucius/Lin Piao campaign, that we have limited confidence we can purposefully help "our friends" by proposals we might make at this time; yet we can take certain unilateral steps over the coming months which would signal our continuing commitment to the normalization process and would at least be in the right direction. Perhaps more importantly, we can avoid certain actions (like the Unger appointment) which will complicate the political lives of those in Peking who support the opening to the U.S.

Taipei was buoyed by the Unger appointment (even as it has been stung more recently by the Peking-Tokyo civil air agreement, and Manila's current movement toward recognition of the PRC), and feels that a combination of Peking's political turmoil and the President's domestic difficulties may save the ROC from a fate that a year ago seemed inevitable. The Nationalists have come to us in recent weeks with a flurry of requests for military sales, and they are attempting to bargain with us for F-4s as a price for the military withdrawal program. ROC lobbyists are increasingly active on the Hill, cultivating friendly Senators and their administrative aides (in part through trips to Taiwan) in order to build pressure against further moves toward Peking. If we are to limit pressures generated by Taipei, and let the ROC down in a non-destabilizing manner as we move toward full U.S.-PRC normalization, we must have an overall strategy tailored to the goals of the Administration's China policy.

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3

At the same time, it is not in Peking's interest any more than our own that we move in such a way that we destabilize Taiwan's economy or political scene in a major way, or drive the island on a course toward independence or a relationship with the Soviets.

Various China-related activities of the USG bureaucracy (visits by Cabinet-level officials to Taiwan, military sales to the GRC, the opening of consulates, etc.) tend to cause us problems with Peking. Procedures for review of such actions by NSC and State appear to be adequate, but the purposeful and coordinated application of these procedures is hampered by lack of an overall concept of the next stages in the normalization process. If actions of our government are not shaped by an overall strategy, options for further movement toward normalization may be foreclosed.

The Process of Normalization

Peking's currently disturbed political situation presents us with a complex problem: how to signal our continuing commitment to normalization (despite our domestic political travail) without locking ourselves into an irreversible position with a potentially unstable Chinese leadership whose future political orientation may not be so inclined to dealings with the U.S.

Following your conversations in Peking last November, you told Vice Premier Teng Hsiao-p'ing and Vice Foreign Minister Ch'iao Kuan-hua in New York on April 14 that you are prepared to discuss in detail the meaning of last November's communique phrase about normalizing relations on the basis of "confirming the principle of one China." They each responded to your offer in rather vague terms, which suggests that either they prefer you raise this issue directly in Peking, or take unilateral actions which would in fact fulfill our commitment to the Shanghai Communique and subsequent public expressions of intent to normalize relations. In addition, when you saw Huang Chen on April 22 he disclaimed any need to hold further discussions with you on any aspect of the Teng/Ch'iao conversation. We are puzzled by Huang's disclaimer. On its face, it indicates that he does not want to hold talks with you about normalization prior to your next trip to Peking. However, he may only have meant that he is not yet prepared for such discussions. Perhaps his disclaimer was not meant to be sweeping on all subjects.

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It is our overall impression, in view of these comments, that the Chinese leadership hopes we will take unilateral steps on the Taiwan issue and towards establishment of formal diplomatic relations between Washington and Peking on terms which Chairman Mao indicated to you ambiguously last November. They may not be in a position to bargain very far on these issues, particularly at levels of authority below the Chairman, and during this turbulent period.

It can also be argued that to precipitate detailed "negotiations" with Peking now holds the danger of forcing a divided PRC leadership to focus on the most delicate of issues at a time when our terms for normalization -- if not fully acceptable -- could only add to the instability. Moreover, Peking's terms for a settlement of the Taiwan question may have stiffened in recent months -- perhaps as a result of their domestic political situation. In this regard, you will recall Ch'iao Kuan-hua's remark to you in New York last month that normalization can "only be on the basis of the Japanese pattern. No other pattern is possible." Chairman Mao indicated last November that we should sever diplomatic relations with Taiwan on the Japanese pattern, but he did not seem quite so categorical. Moreover, he put heavy emphasis on PRC patience in recovering the island and even in establishing diplomatic relations with us, and stressed the point that the strategic international situation was more critical to our bilateral relationship than Taiwan. In addition, the Chairman made a puzzling allusion to the presence in the U.S. of ambassadors from the three remnant Baltic states despite our having diplomatic relations with the Soviet Union.

All this seems to add up to Mao holding a more complicated and perhaps more patient and flexible stance on the Taiwan question than PRC officials have taken in recent weeks. These more recent statements emphasize that, although we can still take time on the issue, we must eventually make a clean break of all official contact with Taiwan as the price for full normalization, and until we are ready to do so we should avoid actions which seem to be in a direction contrary to our Shanghai Communique commitment. This position was recently emphasized by Vice Foreign Minister Ch'iao and Vice Premier Li Hsien-nien in meetings held with the visiting U.S. state governors' delegation. Both officials stressed the need for movement on the Taiwan issue as the basis for further progress toward normalized U.S.-PRC relations. Ch'iao, in addition, cited the Japanese example as a model for the U.S. to follow.

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5

(An indirectly related matter is an increasing tendency of PRC officials to down-play the Soviet threat against China -- suggesting that they do not see an immediate prospect of Soviet military action against them, and hence do not feel under great pressure to make political compromises affecting their other interests. This line was first expressed by Chou En-lai to Foreign Ministry cadre in a speech of April 1973. Chou cited Chairman Mao's evaluation that the Soviet threat was primarily directed against Western Europe, not China. Most recently, Prime Minister Bhutto was impressed by the way that Teng Hsiao-p'ing disparaged the Soviet threat to China during his trip to Peking in mid-May. Teng took a similar line with you in New York in April, recalling the Chairman's observation to you that the Soviet deployment along the border was not enough for defensive purposes, much less an offensive operation and was only intended to scare people with weak nerves. This line may also be intended by Chinese leaders as a way of saying that they are not so nervous about the Russians that they will sell out short on an issue like Taiwan in order to gain protection. There is probably an element of gamemanship here, an attempt to downgrade our central lever.)

To the extent the current signs of leadership conflict in Peking may inhibit flexibility on the Taiwan issue, we recommend that you avoid getting into a detailed discussion on terms for Taiwan's future with second rank PRC officials (i. e., Ambassador Huang) at the present time. Hopefully, by the time you make your next trip to Peking (next fall would seem to be the logical time for another visit), the leadership situation would have stabilized. If it has not, that in itself would hold implications for the normalization process.

On the other hand, we should consider taking a number of unilateral steps which would publicly signal our intention to move forward with normalization in order to deflate concerns in Peking and maintain the overall direction of our China policy. (Such steps are discussed in the following section of this memo.) Thus, at your next meeting with Huang Chen you might make the following points:

-- You mentioned to Teng Hsiao-p'ing and Ch'iao Kuan-hua that you are actively exploring possible actions which would "confirm the principle of one China." You would be willing to discuss specifics with Huang Chen, but believe it would be most appropriate to do so on a face-to-face basis with the Chinese leadership in Peking.

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6

-- You hope that it would be convenient to the Chinese side to tentatively plan for another trip by you to Peking next fall to discuss this issue and other matters of common concern.

-- Over the coming months you expect that there will be concrete indications of our continuing commitment to the Shanghai Communique and to normalization. In this regard, for example, you anticipate a formal public announcement on the withdrawal of our first F-4 squadron within a month or so. (The New York Times published an incomplete account of this news based on a leak on May 19.)

-- You trust the PRC is aware that as we lower our presence on Taiwan we may take certain steps -- such as the Unger appointment -- which will enable us to carry out our withdrawals in a non destabilizing manner. We feel it is in neither of our interests to produce political and economic chaos on the island, or to drive the island in an independent direction.

Possible Areas for Unilateral Action on China

From the perspective of the above analysis, we believe consideration should be given to taking a number of unilateral steps which would move us further down the road to normalized U.S.-PRC relations. There are arguments to be made against such moves, particularly at the present time: the actions most readily taken will affect Taiwan's interests in an evermore costly way; and the U.S. domestic political context may make it difficult for the President to do things which would hurt an old ally. At the same time, however, to remain inactive on China issues may increasingly strain our fragile relationship with Peking and undercut that sense of momentum in U.S.-PRC relations which has been so useful in other diplomatic dealings. It might also mislead Taiwan about our ultimate direction.

Following are a number of possible actions that could be taken unilaterally to move us on the China issue. These actions are raised in the spirit of suggesting a range of alternatives which are available to you, and which could be worked into a coherent, phased strategy of moves toward normalization. At this stage of our analysis they are tentative options worthy of further study; and we seek your guidance on which issues might be explored in more detail. Each needs to be more fully evaluated regarding its relationship to our ultimate normalization goals, and its likely impact on Taiwan.

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7

We have tried to identify actions which would (a) signal either publicly or privately to Peking our good faith on normalization, yet not put us into an irreversible position given the PRC's internal instability, (b) communicate to Taipei the continuing trend of our policy, but not in a way that would be highly destabilizing to the GRC either politically or economically, and (c) which would be consistent with the terms of what we feel is the most desirable arrangement for full normalization as it affects American policy goals and interests and, to a lesser degree, Taipei's interests.

-- Modify our position on support for ROC participation in the international financial institutions (the World Bank, International Monetary Fund, and Asian Development Bank). At present, a Presidential determination issued under your name on November 27, 1973 directs that, while we welcome PRC participation in the IFIs, we should not support actions which would deprive the ROC of its continuing participation. Peking continues to call publicly for the expulsion of Taipei's representatives from the Bank and Fund. Our own estimates of this situation are that it is only a matter of time before the ROC is expelled, and that such action would not have a disastrous impact on the island's economy or diplomatic position. A change of policy on our part to one of not actively resisting ROC expulsion would constitute a strong signal of shifting emphasis in our support for Peking as opposed to Taipei in international organizations, yet not in a way that would directly damage the ROC economy. It would, however, obviously cause us political problems with Taiwan. This issue will come to a head at the next annual meeting of the Bank and Fund, now scheduled for September.

-- Terminate FMS credit arrangements for sales of military equipment to the ROC, substituting cash sales. Timing for such a change of position, which could be justified on grounds of Taiwan's economic vitality, is flexible, but might be pegged to the evaluation of ROC defense needs which Taipei requested. (Special provision would have to be made for credit financing of the F-5E co-production arrangement, now scheduled to run through FY 1978.) The effect of this change on Peking's perception of U.S. intentions toward the island may not be very great, however.

SWA
-- Change-on position on repeal of the 1955 Senate Resolution on the defense of Formosa. A rider on this issue is now attached to the State Department appropriation bill and will come up for a vote by the end of June. Repeal of the resolution would not affect our basic security arrangement with the ROC, which derives from the Mutual Defense Treaty of 1954. We have previously said that we neither support nor oppose its repeal.

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8

We could instead give active support to the repeal, thus strengthening the public signal of the direction of our policy.

The negative aspect of such action is that it would come before you have had a chance to discuss future security arrangements affecting the island in Peking and hence may signal more of a willingness to back away from the Mutual Defense Treaty than you wish to convey. The resolution is likely to be repealed in any event, however, and you may wish to derive the above-noted benefit from Congressional action. You could privately indicate to Peking via Huang Chen that our lack of opposition to the repeal, or overt support for it, is an indication of the trend of our China policy.

-- A detailed review of our intelligence assets on Taiwan is now underway and will be completed by mid-July at the latest. This review will present you with options for further reduction of our military presence on the island and relocation of intelligence-gathering activities. Any decisions on manpower reduction or relocation resulting from this review could be communicated to the PRC privately either via the Liaison Office in the late summer, or directly during a fall trip to Peking. It would seem most useful to hold this particular issue for mention during your next trip if possible, however.

-- Merge our MAAG and Taiwan Defense Command staffs on Taiwan into a reduced, combined operation, perhaps placing it under the Taipei Embassy rather than running it as a separate operation. (DOD has revealed general interest in such a reorganization for efficiency and budgetary reasons.) Such a development could be placed in the context of the defense review which Taipei has requested, although if you reach an early position on our future defense posture vis-a-vis the island you might communicate this to Peking privately, citing the restructuring of MAAG/TDC as a concrete indication of how we see ourselves further reducing our defense presence on the island.

-- Delay indefinitely construction of a new chancery building in Taipei. Dean Brown has placed a hold on planned construction activity, which had been scheduled to begin during FY 1975. This hold can be extended, citing budgetary and other administrative reasons. You could privately indicate to Peking that we had ceased construction of the building and perhaps make sure this change is

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publicly noted at an opportune time. Similarly, we would not request funds in FY 1976 for new residences in Taipei for the Ambassador and DCM (which had been the previous plan).

-- Ask the PRC for a parcel of land in Peking on which to construct facilities for an embassy and residences. Ambassador Bruce has indicated to us that suitable sites in Peking are rapidly being taken by other foreign governments. Thus, this action would have utilitarian value, although its principal impact at the present time would be symbolic -- making clear to Peking (and others) our ultimate intentions. Funds for the purpose could be requested in the FY 1976 budget, now starting its preparatory cycle. Although the PRC has already purchased an office and staff residence building in Washington, they might ask for reciprocal access to land for a suitable residence for Huang Chen. We could accommodate this in the International area on Connecticut Avenue.

-- Offer the PRC the opportunity to open a branch of their Liaison Office in a West Coast city. We might, at the same time, seek reciprocal agreement to open a similar facility in Shanghai or Canton, to be used eventually as a consulate.

-- Grant MFN to the PRC, either unilaterally or preferably on the understanding that the long-outstanding private claims issue would finally be resolved, and in return for the minimal number of comparable benefits which would make the agreement acceptable to Congress. (This issue must obviously be weighed in relation to our dealings with the Soviets, and in terms of the problems of Congressional approval.)

-- You could make a public statement signalling in a more explicit manner the trend of our China policy. You might refer to the Potsdam Declaration as an indirect way of indicating our view that Taiwan is part of China, or allude to the expectation of "fully normalized relations" with the PRC. You could do this as part of a broader speech or work it into a press conference.

-- Take an unaccommodating stance with Taipei in the upcoming air-route negotiations, such as negotiating out of the present agreement the anachronistic clauses relating to stops at cities on the China mainland under PRC control.

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9

Underlying the above actions, which can be taken unilaterally, there is the more complex issue of the degree to which we might -- if at all -- coordinate steps toward full U.S.-PRC normalization with Peking and/or Taipei. On balance, we believe it desirable that your next trip to Peking produce a rather detailed understanding with Chairman Mao and other PRC leaders about the ultimate shape of a normalized relationship -- particularly as it affects Taipei's future, our post-recognition relations with the island, and the U.S.-Taiwan Defense Treaty.

There is also a case to be made -- but less persuasively -- that after there is agreement with the PRC about the shape of final normalization, the ROC should be informed, perhaps by inviting Premier Chiang Ching-kuo to visit you in Washington. Such private advance warning would presumably enable the Premier to cope with the subsequent evolution of our China policy in a manner that would minimize the adverse impact on his position and on the island's stability.

There are obvious risks in exposing our plans so far in advance, however. With the PRC, there is the risk that unforeseen turmoil on the mainland might make it undesirable -- or impossible -- for us to follow through on the understanding. With the GRC there is the greater risk that Chiang Ching-kuo might take steps to try to forestall our proposed action -- by deliberately trying to cause problems between the U.S. and the PRC, and/or by stirring up U.S. domestic opinion against our actions. This complex of issues does not have to be addressed at the present time, but should be evaluated in light of the results of your next Peking trip.

RECOMMENDATIONS:

-- That we undertake a general analysis of alternative arrangements for a fully normalized relationship with the PRC, taking into account not only USG interests but also Peking's concepts for such a development and Taipei's concerns.

Approve _____ Disapprove _____

-- That specific consideration be given to how policy shifts in the following areas might be worked into an overall strategy of normalization and how they might be most effectively implemented as unilateral indicators of our China policy. Consideration would also

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10

be given to their impact on Taiwan. (We only ask your guidance on which issues should be further evaluated; we are not now seeking authority for action on these issues.)

-- Drop active opposition to ROC expulsion from the IFIs:

Approve _____ Disapprove _____

-- Eliminate FMS credits for military sales to the ROC.

Approve _____ Disapprove _____

-- Quietly drop opposition to Congressional repeal of the "Defense of Formosa" Resolution.

Approve _____ Disapprove _____

-- Study alternative arrangements to the present MAAG/TDC organization.

Approve _____ Disapprove _____

-- Continue to delay construction of a new Taipei chancery and residence.

Approve _____ Disapprove _____

-- Ask the PRC for a parcel of land for Embassy construction.

Approve _____ Disapprove _____

-- Offer the PRC the reciprocal opening of branches to our Liaison Offices.

Approve _____ Disapprove _____

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-- Offer the PRC MFN status.

Approve _____ Disapprove _____

-- Draft a statement or allusion for you indicating the future trend of our China policy for use in June.

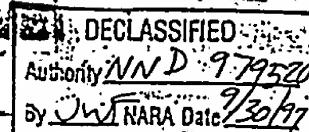
Approve _____ Disapprove _____

-- Work up options for a hard bargaining stance in the upcoming air-route negotiations with Taipei.

Approve _____ Disapprove _____

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Decisions on May 24 memo

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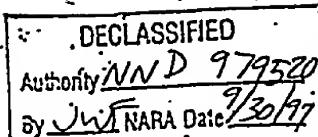
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Disapprove

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-- Drop active opposition to ROC expulsion from the IFIs:

Approve Disapprove

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Approve Disapprove

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Approve Disapprove

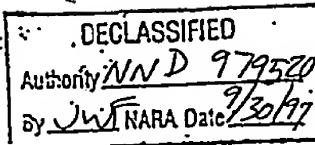
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Approve Disapprove

-- Offer the PRC the reciprocal opening of branches to our Liaison Offices.

Approve Disapprove

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-- Offer the PRC MFN status.

Approve _____ Disapprove _____

-- Draft a statement or allusion for you indicating the future trend of our China policy for use in June.

Approve Disapprove _____

-- Work up options for a hard bargaining stance in the upcoming air-route negotiations with Taipei.

Approve _____ Disapprove _____

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